

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GOGEBIC RANGE WATER AUTHORITY	County GOGEBIC
Fiscal Year End June 30, 2007	Opinion Date 12/27/07	Date Audit Report Submitted to State 12/27/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

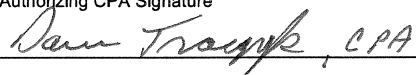
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No findings to report	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DAVID TRACZYK CPA		Telephone Number 715-561-3299	
Street Address 327 SILVER STREET		City HURLEY	State WI
		Zip 54534	
Authorizing CPA Signature 	Printed Name DAVID TRACZYK		License Number 1101011098

GOGEBIC RANGE WATER AUTHORITY  
RAMSAY, MICHIGAN  
AUDITED FINANCIAL STATEMENTS

June 30, 2007

## Table of Contents

	Page
Management's Discussion and Analysis	3
Independent Auditor's Report	7
Statements of Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets	11
Statements of Cash Flows	12
Notes to Financial Statements	13
Other Financial Information:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23

GOGEBIC RANGE WATER AUTHORITY  
Management Discussion and Analysis  
Year ended June 30, 2007

This section of the Gogebic Range Water Authority's (the 'Authority') annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended June 30, 2007. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB34) Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments, as amended and interpreted, and is intended to provide the financial results for the fiscal year ending June 30, 2007.

## GENERAL INFORMATION

The Authority was formed in 1977, as a municipal authority under the provisions of Act 233 of Public Acts of Michigan, 1955, as amended. The municipalities creating the Authority were the Cities of Bessemer and Wakefield, Michigan, Charter Township of Ironwood, and the Townships of Bessemer and Wakefield, Michigan. The Authority was formed for the purpose of developing a water source for its members and others.

## FINANCIAL HIGHLIGHTS

- The assets of the Authority exceed its liabilities as of June 30, 2007 by \$9,440,826 (net assets).
- The Authority's investment in capital assets, net of related debt as of June 30, 2007 was \$8,791,567.
- The Authority's total revenue for the fiscal year ended June 30, 2007, was \$429,677.
- The Authority's total expenses for the fiscal year ended June 30, 2007 was \$546,662, net of no interest capitalized. Therefore, the Authority's total expenses exceeded revenues by \$116,985.
- The Authority's capital contributions (grants) for the fiscal year ended June 30, 2007 was \$338,950.
- The Authority added \$337,572 to its plant assets during the year. These were funded primarily by grants (\$338,950).

## OVERVIEW OF THE FINANCIAL STATEMENTS

The following financial statements are included in this report:

- Statement of Net Assets – reports the Authority current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the Authority.
- Statement of Revenue, Expenses and Changes in Net Assets – reports the Authority's various revenue and expenses.
- Statement of Cash Flows – reports sources and uses of cash by operating activities, capital and related financing activities, and investing activities.

## ANALYSIS OF FINANCIAL STATEMENTS

### Condensed Financial Information

#### Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of June 30,

ASSETS			
	2007	2006	Increase (Decrease)
Current Assets:			
Checking/Savings	\$ 138,809	\$ 160,387	\$ (21,578)
Other current Assets	23,780	20,581	3,199
Total Current Assets	162,589	180,968	(18,379)
Fixed Assets	13,541,777	13,456,802	84,975
Other Assets	493,749	298,264	195,485
<b>TOTAL ASSETS</b>	<b>\$ 14,198,115</b>	<b>\$ 13,936,034</b>	<b>\$ 262,081</b>
LIABILITIES & EQUITY			
Current Liabilities:			
Account Payable	\$ 132,568	\$ 29,359	\$ 103,209
Other current Liabilities	81,765	80,038	1,727
Total Current Liabilities	214,333	109,397	104,936
Other Liabilities	4,542,956	4,607,776	(64,820)
Total Liabilities	4,757,289	4,717,173	40,116
Equity	9,440,826	9,218,861	221,965
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 14,198,115</b>	<b>\$ 13,936,034</b>	<b>\$ 262,081</b>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 8,791,567	\$ 8,745,583	\$ 45,984
Restricted for debt service	163,681	118,465	45,216
Restricted for capital projects	261,132	109,110	152,022
Unrestricted	224,446	245,703	(21,257)
Total Net Assets	\$ 9,440,826	\$ 9,218,861	\$ 221,965

The Authority's total net assets are \$9,440,820 at June 30, 2007. Capital assets, net of related debt \$8,791,567. This figure is derived by taking the original cost of the Authority's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

The total unrestricted net assets are \$224,446 as of June 30, 2007. This is the net accumulated result of the current and past year's operations. The nature of the Authority's operations is based on charges for services and federal grants. The balance in the unrestricted net assets shows that the Authority has an ample amount of assets to fund liabilities at June 30, 2007.

### Statement of Revenues, Expenses, and changes in Net Assets

The results of operations for the Authority are reported in the statement of revenues, expenses, and changes in net assets. A summary of the results of operations are as follows for the years ended June 30,

	2007	2006	Increase (Decrease)
Operating Revenues:			
Water Sales	\$ 102,426	\$ 100,161	\$ 2,265
Services	<u>321,214</u>	<u>327,939</u>	<u>(6,725)</u>
Total Operating Revenue	423,640	428,100	(4,460)
Operating Expenses	<u>352,509</u>	<u>284,058</u>	<u>68,451</u>
Operating Income	71,131	144,042	(72,911)
Other Revenue (Expenses):			
Interest Income	6,037	5,731	306
Amortization	(1,941)	(1,940)	(1)
Interest Expense	(192,212)	(120,960)	(71,252)
capital contributions	<u>338,950</u>	<u>1,077,400</u>	<u>(738,450)</u>
Change in Net Assets	221,965	1,104,273	(882,308)
Beginning Net Assets	<u>9,218,861</u>	<u>8,114,588</u>	<u>1,104,273</u>
Ending Net Assets	<u>\$ 9,440,826</u>	<u>\$ 9,218,861</u>	<u>\$ 221,965</u>

The Authority has an overall increase in net assets of \$221,965 for the year ended June 30, 2007. Depreciation expense of \$252,596 and amortization expense of \$1,941 was charged to business activities for the year.

### Fund Budget Items

The Authority prepared an annual budget and revises it to account for changes in expenditures as needed.

### Capital Assets

At June 30, 2007, the Authority had \$13,541,777 invested in capital assets, net of accumulated depreciation. Assets were capitalized at historical cost. The Authority added \$337,572 of plant assets during the year ended June 30, 2007. Of this amount, \$268,240 was funded by grants.

## Debt

The Authority has \$4,595,000 of long-term liabilities at June 30, 2007. This amount consists of construction loans with various bonds payable to USDA Rural Development. Detail on the bonds can be found in the notes to the financial statements.

## Future Considerations

Continuing efforts are being made to obtain grant and loan financing for developing the Authority regional water system and serve the infrastructure needs of the Authority members.

## Contacting the Authority

If you have any questions about this report or need additional information, contact the Authority Administrator at N10338 Mill Street – P.O. Box 445, Ramsay, MI 49959; telephone number 906-667-0465.

---

# DAVID TRACZYK

## Certified Public Accountant

327 SILVER STREET  
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

### INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board  
Gogebic Range Water Authority  
Ramsay, Michigan

I have audited the accompanying basic financial statements of Gogebic Range Water Authority (the "Authority"), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gogebic Range Water Authority as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards I have also issued my report dated December 27, 2007, on my consideration of the Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.



The management's discussion and analysis information on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

December 27, 2007

GOGEBIC RANGE WATER AUTHORITY  
STATEMENT OF NET ASSETS

June 30,

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 138,809	\$ 160,387
Accounts receivable, net	2,098	2,006
Due from other governments	<u>21,682</u>	<u>18,575</u>
Total current assets	162,589	180,968
NONCURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	<u>425,001</u>	<u>227,575</u>
Total restricted assets	425,001	227,575
CAPITAL ASSETS		
Nondepreciable:		
Land	1,800	1,800
Construction in progress	277,917	6,335,750
Depreciable property, plant and equipment - net	<u>13,262,060</u>	<u>7,119,252</u>
Total capital assets	13,541,777	13,456,802
OTHER ASSETS		
Bond issue costs, net	<u>68,748</u>	<u>70,689</u>
Total other assets	<u>68,748</u>	<u>70,689</u>
Total noncurrent assets	<u>14,035,526</u>	<u>13,755,066</u>
Total assets	<u><u>\$ 14,198,115</u></u>	<u><u>\$ 13,936,034</u></u>

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY  
STATEMENT OF NET ASSETS

June 30,

LIABILITIES

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts payable	\$ 7,079	\$ 5,954
Accounts payable - construction	<u>13,484</u>	<u>23,290</u>
Total current liabilities	20,563	29,244
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable - construction	112,005	115
Accrued interest	19,765	20,038
Notes and bonds payable	<u>62,000</u>	<u>60,000</u>
Total current liabilities payable from restricted assets	193,770	80,153
NONCURRENT LIABILITIES		
Accounts payable - construction	9,956	12,776
Notes and bonds payable, net	<u>4,533,000</u>	<u>4,595,000</u>
Total noncurrent liabilities	<u>4,542,956</u>	<u>4,607,776</u>
Total liabilities	<u>4,757,289</u>	<u>4,717,173</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,791,567	8,745,583
Restricted for debt service	163,681	118,465
Restricted for capital projects	261,132	109,110
Unrestricted	<u>224,446</u>	<u>245,703</u>
Total net assets	<u><u>\$ 9,440,826</u></u>	<u><u>\$ 9,218,861</u></u>

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year ended June 30,

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Water sales	\$ 102,426	\$ 100,161
Services to member municipalities	<u>321,214</u>	<u>327,939</u>
Total operating revenues	423,640	428,100
Operating expenses:		
Administrative wages	26,500	26,500
Other administration	9,085	7,342
Professional fees	7,080	9,911
Insurance	10,197	12,630
Travel	653	3,303
Repairs and maintenance	15,770	18,692
Water purchased	30,628	31,217
Depreciation	<u>252,596</u>	<u>174,463</u>
Total operating expenses	<u>352,509</u>	<u>284,058</u>
Operating Income (Loss)	71,131	144,042
Non-operating revenues (expenses):		
Interest income	6,037	5,731
Amortization of debt expense	(1,941)	(1,940)
Interest expense	<u>(192,212)</u>	<u>(120,960)</u>
Total non-operating revenue (expenses)	<u>(188,116)</u>	<u>(117,169)</u>
Net Income (Loss) Before Contributions	(116,985)	26,873
Capital contributions	<u>338,950</u>	<u>1,077,400</u>
Change in Net Assets	221,965	1,104,273
Net Assets at Beginning of Year	<u>9,218,861</u>	<u>8,114,588</u>
Net Assets at End of Year	<u><u>\$ 9,440,826</u></u>	<u><u>\$ 9,218,861</u></u>

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
Year ended June 30,

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$420,441	\$430,538
Payments to suppliers	(72,038)	(80,645)
Payments to employees	<u>(26,750)</u>	<u>(29,033)</u>
Net Cash Provided (Used) by Operating Activities	321,653	320,860
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(238,305)	(1,129,694)
Capital contributions	338,950	1,077,400
Proceeds from bonds payable	0	0
Principal paid on notes and bonds payable	(60,000)	(58,000)
Interest paid on notes and bonds payable	<u>(192,485)</u>	<u>(194,861)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(151,840)	(305,155)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	<u>6,037</u>	<u>5,731</u>
Net Cash Provided (Used) by Investing Activities	<u>6,037</u>	<u>5,731</u>
Net Increases (Decrease) in Cash and Cash Equivalents	175,850	21,436
Balances - Beginning of Year	<u>387,962</u>	<u>366,526</u>
Balances - End of Year	<u><u>\$563,812</u></u>	<u><u>\$387,962</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$71,131	\$144,042
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Depreciation	252,596	174,463
Change in assets and liabilities:		
Accounts receivable	(3,199)	2,438
Accounts payable	<u>1,125</u>	<u>(83)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$321,653</u></u>	<u><u>\$320,860</u></u>
Noncash investing, capital and financing activities:		
Construction financed by accounts payable	\$135,445	\$36,181
Capitalized interest accrued on plant construction	0	73,632

See accompanying notes to basic financial statements.

# GOGEBIC RANGE WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

Gogebic Range Water Authority (the Authority) was formed on December 1, 1977, as a municipal authority under the provisions of Act 233 of Public Acts of Michigan, 1955, as amended. The municipalities creating the Authority were the Cities of Bessemer and Wakefield, Michigan, Charter Township of Ironwood, and the Townships of Bessemer and Wakefield, Michigan. The Authority was formed for the purpose of developing a water source for its members and others.

In addition to providing water to its members, the Authority also sells water to other customers at agreed-upon rates.

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic – but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its constituents, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Authority contain all the funds and account groups controlled by the Authority's Board as no other entity meets the criteria to be considered a component unit of the Authority nor is the Authority a component unit of another entity.

#### **Measurement Focus, Basis of Accounting and Basis of Presentation**

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority applies all relevant Government Accounting Standards Board (GASB) pronouncements. As enterprise funds, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has not adopted GASB Statement No. 20.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues of the Authority are charges to customers for water use and charges to member municipalities to recover the costs within the individual municipalities. The charges to recover the financing costs are allocated to the member municipalities based on construction cost allocations. Operating expenses include the cost of providing water, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are grants and investment income. The principal nonoperating expenses of the Authority include interest expense.

Capital grant funding represents amounts received from capital project grants which are restricted to capital acquisition or construction. The Authority recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Deposits and Investments**

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

#### **Receivables**

Accounts receivable have been shown net of an allowance for uncollectible accounts. As of June 30, 2007, all accounts were deemed collectible and no allowance had been recorded.

The amount due from other governments consists of charges to member municipalities for administration and financing costs. All amounts have been determined to be collectible and no allowance has been recorded.

The Authority does not accrue unbilled service at the end of the year with respect to service provided but not billed at such date.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capital Assets

Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than \$1,000. Maintenance and repair costs are charged to expense as incurred.

Capital assets are reported at cost or the fair market value at the time of contribution to the Authority. Major outlays for plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Source of supply	40 - 100
Pumping	20 - 100
Water treatment	40
Transmission and distribution	50 - 100
General	5 - 40

#### Bond Issue Costs

Bond issue costs are amortized to expense over the life of the related indebtedness.

#### Compensated Absences

The Authority has one employee that receives a salary. There are no accrued vacation or sick leave costs.

#### Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond's mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE B – CASH AND INVESTMENTS

All deposits were made in a bank authorized by the Board of Directors and under authority of State of Michigan deposit laws. Operating cash balances were \$138,809 and \$197,447 at June 30, 2007 and 2006 respectively. All deposits were made in financial institutions whose deposits are covered by federal depository insurance. For the purpose of the statement of cash flows, the Authority considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Investing is performed in accordance with investment policies complying with state statutes.

Restricted cash consisted of the following:

	June 30, 2007	June 30, 2006
1. Construction Account, these are checking accounts used to receive loan and grant proceeds to be used solely to pay construction costs: Phase II	\$ 133,568	\$ 115
2. Bond Reserve Account, These savings accounts are set aside in accordance with terms of the bond issues. The funds in these accounts shall be used solely for payment of principal and interest on the bonds as to which these would otherwise be default:		
2000 issue	121,088	93,616
2003 issue	29,747	18,939
2004 issue	12,846	5,909
3. Repair, Replacement and Improvement Account, these savings accounts are set aside in accordance with terms of the bond issues and actions by the Board of Directors. These funds are to be used for repairs, replacement, or improvements to the water system. If the amounts in the bond reserve accounts are not sufficient to pay on the bonds when due, these monies may be transferred for that purpose.	127,752	108,996
Total Restricted Cash	<u>\$ 425,001</u>	<u>\$ 227,575</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE B – CASH AND INVESTMENTS (continued)

In accordance with GASB Statement No. 3, risk disclosure for bank deposits at June 30, 2007 are:

a. Insured or collateralized with securities held by the entity or by its agent in the entity's name.	\$ 100,000
b. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	463,810
c. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)	<u>-</u>
Subtotal	\$ 563,810
Less outstanding items	<u>(204)</u>
Balance at June 30, 2007	<u><u>\$ 563,606</u></u>

### NOTE C – CAPITAL ASSETS

A summary of the changes in the Authority's capital assets for the year ended June 30, 2007, is as follows:

	Balance at June 30, 2006	Additions	Reductions	Balance at June 30, 2007
Land	\$ 1,800	\$ -	\$ -	\$ 1,800
Structures and improvements	2,468,459	413,143	-	2,881,602
Wells and improvements	947,554	199,537	-	1,147,091
Pumping station	502,189	5,782,725	-	6,284,914
Water mains and hydrants	3,990,358	-	-	3,990,358
Reservoir	10,087	-	-	10,087
General equipment	8,403	-	-	8,403
Construction in progress	<u>6,335,750</u>	<u>337,572</u>	<u>6,395,405</u>	<u>277,917</u>
Total Plant	14,264,600	6,732,977	6,395,405	14,602,172
Less allowances for depreciation	<u>(807,798)</u>	<u>(252,597)</u>	<u>-</u>	<u>(1,060,395)</u>
	<u><u>\$ 13,456,802</u></u>	<u><u>\$ 6,480,380</u></u>	<u><u>\$6,395,405</u></u>	<u><u>\$ 13,541,777</u></u>

The Authority had an increase in plant assets of \$337,572 and no assets were disposed of during the year. Construction in progress at July 31, 2006, of \$6,395,405 was placed in service in July of 2006. These assets were reclassified to the plant accounts and depreciated over their respective lives effective July 1, 2006.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE D – CONSTRUCTION IN PROGRESS

The Authority is expanding its water supply system. Construction of phase I started in July 2000 and was completed in August 2003 at a cost of \$6,393,925. Phase II was started in April of 2003 and completed in July of 2006 at a cost of \$6,395,405. Funding has been obtained from the USDA – Rural Development through a combination of loans and grants. Capital assets constructed under these projects will be owned and maintained by the Authority until the related debt has been retired (forty years). After the debt has been retired, the system's ownership will be turned over to the member municipalities involved.

The Authority also has plans in 2008 to upgrade systems in Bessemer Township and Wakefield Township at an estimated cost of \$1,500,000, to be funded by a loan. In addition, a 250,000 gallon storage tank is planned at an estimated cost of \$787,000, to be funded by grants of \$135,000 and a loan of \$652,000.

An additional project to extend services to Ironwood Township is planned to start in 2009. This project is estimated to cost \$5,030,000, to be funded by \$2,780,000 of loans and \$2,250,000 of grants.

### NOTE E – DEFERRED LOAN COSTS

Expenses incurred in connection with the issuance of bonds are being amortized over the lives of the related debt as follows:

	Bond Issue			Total
	Series 2000	Series 2003	Series 2004	
Debt issuance costs	\$ 28,387	\$ 37,243	\$ 12,000	\$ 77,630
Amortization:				
Beginning balance	3,548	2,793	600	6,941
Current year	710	931	300	1,941
Accumulated balance	<u>4,258</u>	<u>3,724</u>	<u>900</u>	<u>8,882</u>
Ending Balance	<u>\$ 24,129</u>	<u>\$ 33,519</u>	<u>\$ 11,100</u>	<u>\$ 68,748</u>

### NOTE F – LONG TERM DEBT

On October 5, 2000, April 1, 2003 and September 15, 2004, the Authority issued Water System No. 1 Limited Tax General Obligation Bonds, Series 2000, 2003 and 2004. Series 2000, 2003 and 2004, were issued for \$2,833,000, \$1,339,000 and \$726,000, bearing interest rates of 4.5%, 3.25% and 4.375%, respectively. They were single issue bonds purchased by USDA - Rural Development. At June 30, 2007, the outstanding balances were \$2,621,000 for the series 2000 bond, \$1,270,000 for series 2003 bond, and \$704,000 for series 2004.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE F – LONG TERM DEBT (continued)

These bonds are payable by the Authority from proceeds of contracted payments to be paid by the member municipalities. Principal payments on the series 2000 bond are due July 1 and interest is due July 1 and January 1 of each year. The series 2003 bond has principal payments due February 1 and interest due February 1 and August 1 of each year. The series 2004 bond has principal payments due June 1 and interest due June 1 and December 1 of each year.

A summary of changes in long-term debt for the year ended June 30, 2007 are as follows:

	Balance at June 30, 2006	Additions	Payments	Balance at June 30, 2007	Due Within One Year
Series 2000	\$ 2,655,000	\$ -	\$ 34,000	\$ 2,621,000	\$ 36,000
Series 2003	1,288,000	-	18,000	1,270,000	18,000
Series 2004	712,000	-	8,000	704,000	8,000
	<u>\$ 4,655,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 4,595,000</u>	<u>\$ 62,000</u>

The annual aggregate maturities for the bonds for years subsequent to June 30, 2006, are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 62,000	\$ 190,020	\$ 252,020
2009	66,000	187,465	253,465
2010	68,000	184,755	252,755
2011	70,000	181,956	251,956
2012	74,000	179,068	253,068
2013-2017	420,000	846,923	1,266,923
2018-2022	512,000	752,780	1,264,780
2023-2027	630,000	637,322	1,267,322
2028-2032	774,000	495,767	1,269,767
2033-2037	945,000	319,405	1,264,405
2035-2042	839,000	117,957	956,957
2043-2044	135,000	6,981	141,981
	<u>\$ 4,595,000</u>	<u>\$ 4,100,399</u>	<u>\$ 8,695,399</u>

### NOTE G – RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$2,000,000 per occurrence and \$4,000,000 in the aggregate and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE G – RISK MANAGEMENT (continued)

In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2007, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of construction projects, the Authority receives loan and grant funds from various federal and state agencies. These programs are subject to audit by agents of the lending and granting agencies, the purpose of which is to ensure compliance with conditions precedent to the awarding of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

### NOTE I – RELATED PARTY TRANSACTIONS

#### 1. Lease, Water Purchase, and Administrative Services

The Authority has lease agreements, water purchase agreements, and administrative service agreements with the member municipalities. Through these agreements, the Authority purchases water from the City of Wakefield and sells this water to Bessemer and Wakefield Townships. The Authority also transmits water on behalf of the City of Bessemer from the City's well field to the City. In addition, the Authority is responsible for the administration of various projects involving the development of water sources and distribution of the water to the various members for sale to their respective customers.

The Authority charges Bessemer and Wakefield Townships for water sold to them. Construction and related financing costs are allocated and billed by the Authority to the member municipalities. Charges for these services by the Authority are billed to the members based on percentages developed on a project by project basis. Revenues derived from these charges are used to pay costs of operations and debt retirement obligations.

Under terms of the lease agreements, the member municipalities are responsible to maintain the systems located in their respective communities. Ultimately, when the debts related to the various projects are paid, ownership of the assets of the Authority will be turned over to the communities in which they are located.

#### 2. Office Lease

On September 1, 2003, the Authority entered into an agreement with Bessemer Township (a member) to lease office space in the Township hall for use by the Authority. This is an operating lease whereby either party may terminate the lease at will. The lease calls for the Authority to pay a monthly rent of \$300 less credit for capital improvements made to the real estate. The Authority began paying the monthly rent of \$300 in July of 2006.

## OTHER FINANCIAL INFORMATION

---

# DAVID TRACZYK

## Certified Public Accountant

327 SILVER STREET  
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman and Members of the Board  
Gogebic Range Water Authority  
Ramsay, Michigan

I have audited the financial statements of Gogebic Range Water Authority as of and for the year ended June 30, 2007, and have issued my report thereon dated December 27, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Gogebic Range Water Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Gogebic Range Water Authority's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of the Gogebic Range Water Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gogebic Range Water Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gogebic Range Water Authority's financial statements that is more than inconsequential will not be prevented or detected by the Gogebic Range Water Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Gogebic Range Water Authority's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.



## Compliance

As part of obtaining reasonable assurance about whether Gogebic Range Water Authority's financial statements are free of material misstatement, I performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and member municipalities, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 27, 2007